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EXPARTE

March 8, 2001

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street, SW
Room TW-A325
Washington, D.C. 20554

EX PARTE OR LATE FILED

Re: *Ex Parte* Meeting
CC Docket No. 00-199

Dear Ms. Salas:

Today, Bill Johnson of Qwest, Lynn Rodgers-Hainey and Mary Henze of BellSouth, Joanne Barron and Jerry Asch of Verizon, Al Seyles of SBC, Mike Campbell of Roseville and the undersigned on behalf of the United States Telecom Association (USTA) met with Carol Mattey, Andrew Mulitz and Jared Carlson of the Common Carrier Bureau regarding the above-referenced proceeding.

The purpose of the meeting was to discuss USTA's recommendations to streamline the Commission's accounting and reporting rules as expressed in USTA's written comments filed in this proceeding. The attached handout was distributed and the bullet points were specifically discussed.

In accordance with Section 1.1206(a)(1) of the Commission's rules, an original and one copy of this notice are being filed in the Office of the Secretary. Please include this notice in the public record of this proceeding. If there are any questions regarding this submission, please contact the undersigned.

Respectfully submitted,

Linda L. Kent

Linda L. Kent
Associate General Counsel

Attachment
cc: Carol Mattey
Andy Mulitz
Jared Carlson

Original + 1
No. of Copies rec'd 1
List A B C D E

USTA
Accounting and Reporting Biennial Review- Phase 2

March 8, 2001

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Accounting and Reporting - Phase 2

- <u>Class B Accounts</u>
  - Original Purpose - "The new USOA must exist in the new competitive environment, **balancing our continuing needs** for regulatory information **against our desire not to impose unreasonable or unnecessary reporting requirements** on telephone companies...The new USOA should ascertain appropriate accounting categories...The desirability of smaller categories should be **carefully balanced by the concern not to impose burdens upon carriers out of proportion to the usefulness of the information provided**... The revised USOA should not be tied to any particular cost of service methodology... The new accounting system should be consistent with the regulatory requirements of the new telecommunications environment." CC Docket 78-196, par 7, FCC 86-221, released 5/15/86)
  - Class B is more than sufficient for Large LECs.
    - Class A account structure is not needed to perform the calculations required by Parts 36, 64 and 69
    - Price caps, pricing flexibility and forward-looking cost studies have severed the link between accounting costs and rates

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Accounting and Reporting - Phase 2

- Class B Accounts (continued)
  - Carriers will maintain internal data
    - to meet regulatory, FCPA (Foreign Corrupt Practices Act) and Tax Requirements
    - to conduct studies for UNEs, tariffs, etc.
  - The industry is changing too fast to impose a detailed rigid standard set of accounts that can stifle innovation.
    - Companies need flexibility to evolve with changes in technology
    - Companies are already quite different from each other due to different business needs and strategies
    - Incumbent LECs are only part of the LEC universe

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Accounting and Reporting - Phase 2

- Class B Accounts (continued)
  - States' request for new accounts is generally service specific or would require an allocation
    - Accounts are not service specific "We **do not endorse SWB's proposal to establish 'service specific' subaccounts**...Subaccounts based on such a classification would be inconsistent with the functional cost categories...." CC Docket 86-111, footnote 501, FCC 86-564, released 2/6/87.
    - Accounts do not require allocations "...the financial accounts of a company **should not reflect the a priori allocation** of revenues, investments or expenses **to products or services, jurisdictions or organizational structures**." 47CFR 32.2(c)
    - Biennial Review should not result in new burdens

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Accounting and Reporting - Phase 2

- Part 64 Forecast
  - Original Purpose - "We reaffirm that **protecting ratepayers from unjust and unreasonable interstate rates** is the primary purpose behind the accounting separation of regulated from nonregulated activities, just as it is the purpose behind all of our accounting and cost allocation rules." CC Docket 86-111, par 37, FCC 86-564, released 2/6/87. "**If a cost were incurred largely to provide for future nonregulated services, and these services failed to grow as expected, we would not want the nonregulated share of the cost to fall on regulated operations** and, therefore, be charged to ratepayers." CC Docket 86-111, par 169, FCC 86-564, released 2/6/87.
  - Under price cap regulation, costs of the carrier do not automatically raise interstate rates; that means cost shifting can no longer automatically result in interstate regulated ratepayers bearing costs of nonregulated services.

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Accounting and Reporting - Phase 2

- Part 64 Forecast (continued)
  - Forecasting is No Longer Necessary for Shared Central Office and Outside Plant Investment
    - UNE prices are available for most network elements.
    - For some carriers, major competitive services are in separate subsidiaries (Long Distance, Data, etc.).
    - Direct assignment and tariff transfers address most of the LEC investment.
    - Shared investment is what remains after direct assignment and tariff transfers; Forecasts are not needed for this residual investment.

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Accounting and Reporting - Phase 2

- <u>Affiliate Transactions</u>
  - Original Purpose - "Since such **prices become part of the costs and rate base of the carrier**, they can lead to unreasonably high rates." CC Docket 86-111, par 15 and 290, FCC 86-564, released 2/6/87. "Our goal in establishing standards for transactions between affiliates is to prevent cost shifting to ratepayers by means of improper transfer pricing. The Department of Justice in its comments states the concern succinctly....**because under cost-based regulation, the regulators would permit a corresponding increase in the price of the regulated product**.....the loss to the regulated business will increase the service's revenue requirement and be recovered from ratepayers" CC Docket 86-111, par 290, FCC 86-564, released 2/6/87.
  - Under price cap regulation, carrier costs and rate base do not automatically raise interstate rates; that means any cost shifting from affiliate transfer pricing can no longer result in a corresponding increase in regulated interstate prices.

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- Affiliate Transactions (continued)
  - Estimated Fair Market Value (EFMV) calculations are burdensome and no longer necessary; if not eliminated, the use of Cost/ EFMV comparisons can be reduced as follows:
  - Asset Transfers
    - An annual threshold to exempt the Cost/EFMV comparison should apply separately to each affiliate
      - exempting up to $1 million is realistic for assets
      - existing $500K exemption for services should also be implemented separately for each affiliate

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Accounting and Reporting - Phase 2

- Affiliate Transactions (continued)
  - Prevailing Price
    - Lower threshold so more transactions can qualify for prevailing price (and not have to do a Cost/ EFMV comparison). Change threshold to qualify for prevailing price from unaffiliated sales of 50% or more sales to unaffiliated sales of 25% or more.
    - As an alternative, limit calculation of qualifying percentage to sales between incumbent LECs and nonregulated affiliates instead of among all affiliates.

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- Affiliate Transactions (continued)
  - Centralized Services
    - Expand Centralized Services exemption so more transactions can make use of Fully Distributed Cost (without having to do a Cost/EFMV comparison)
      - Nonreg Affiliates qualifying today for a Centralized Services exemption should retain that exemption
      - Allow additional Nonreg Affiliate-provided services to qualify if > 50% service specific sales are to members of corporate family
      - Allow certain ILEC-provided services to qualify if > 50% service specific sales are to members of corporate family

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Accounting and Reporting - Phase 2

- <u>ARMIS</u>
  - Original Purpose - "This automated system is intended to facilitate the timely and efficient **analysis of revenue requirements and rates of return**, to provide an **improved basis for audit** and other oversight functions, and to enhance our ability to quantify the effects of alternative policy proposals." CC Docket 86-182, par 1, FCC 87-242, released 9/17/87
  - Revenue requirements and rates of return analysis are no longer necessary for price cap carriers, especially with elimination of LFAM. Reporting of detailed cost data and a Part 64 Cost Allocation biennial audit of ARMIS 43-03 are also no longer a necessity.

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- ARMIS (continued)
  - Monitoring for large LECs can occur using higher level financial reports.
  - Consolidate 43-01, 02, 03, and 04 into one report. Use Class B accounts and eliminate detailed columns. (See June 9, 2000, letter filed in Phase 1 and see Phase 2 comments)
  - Eliminate 43-07 and 08
    - As alternative use abbreviated 43-08 (See June 9, 2000, letter filed in Phase 1 and see Phase 2 comments)

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Accounting and Reporting - Phase 2

- Midsize Carriers
  - No CAM
  - No CAM Audit of ARMIS 43-03
  - No ARMIS